

FINANCIAL INFORMATION

The City Manager, under the direction of City Council, is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the government are protected from loss, theft or misuse, and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. Internal control is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of the control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

As a recipient of Commonwealth and federal awards, the City also is responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to those programs. Internal control is subject to periodic evaluation by management and internal audit, and is reviewed by independent auditors as part of the City's annual audit under the single audit concept.

As a part of the City's single audit, tests are made to determine the adequacy of internal control, including that portion related to federal awards, and to determine that the City has complied with applicable laws and regulations. The results of the single audit for the fiscal year ended June 30, 2001 provided no instances of material weaknesses in internal controls.

Budgetary controls are maintained to ensure compliance with legal provisions embodied in the annual budgets approved by City Council. Activities of the General Fund, Debt Service Fund, School General Fund, Environmental Storm Water Management (Special Revenue) Fund, enterprise funds and internal service funds are included in the annual budget appropriation. The level of budgetary control is at the departmental level, with additional appropriation and line item controls exercised administratively. Purchase order and encumbrance accounting systems are maintained as techniques for accomplishing budgetary control. Any unencumbered amounts lapse and become available for reappropriation at year-end. Project budgets are adopted for the Grantend. Projj 0 Tc 0 TwTwTwithTent0101

and enters into capital leases for its capital requirements, and approves its annual operating budget.

GENERAL GOVERNMENTAL REVENUE AND OTHER FINANCING SOURCES
(Accounting principles generally accepted in the United States of America)

General governmental revenue and other financing sources include the City's General Fund and School General Fund. Revenue, operating transfers in and other financing sources for general governmental operations increased from fiscal year 2000 by approximately \$37.9 million to \$614.3 million, an increase of 7.0 percent.

The revenue from all general governmental sources, the relationship of each to the total, and the changes from the previous year are as follows:

	2001 Amount	2000 Amount	Percent of 2001 Total	Increase (decrease) from 2000
General property taxes	\$ 153,366,476	\$ 152,061,598	25.0 %	\$ 1,304,878
Other local taxes	126,536,522	119,106,596	20.6	7,429,926
Permit, privilege fees and regulatory licenses	2,600,873	2,942,853	0.4	(341,980)
Fines and forfeitures	1,683,980	1,660,692	0.3	23,288
Use of money and property	10,273,560	9,581,176	1.7	692,384
Charges for services	13,217,753	13,163,379	2.1	54,374
Miscellaneous	4,111,221	4,490,174	0.7	(378,953)
Recovered costs	14,135,337	12,337,518	2.3	1,797,819
Intergovernmental revenue	<u>258,036,874</u>	<u>245,158,349</u>	<u>42.0</u>	<u>12,878,525</u>
Total revenue	583,962,596	560,502,335	95.1	23,460,261
Other financing sources:				-
Proceeds from sale of land	10,762,634	70,212	1.8	10,692,422
Proceeds from sale of capital leases	6,666,606	4,975,018	1.1	1,691,588
Operating transfers in	<u>12,955,526</u>	<u>10,877,730</u>	<u>2.1</u>	<u>2,077,796</u>
	<u>\$ 614,347,362</u>	<u>\$ 576,425,295</u>	<u>100.0 %</u>	<u>\$ 37,922,067</u>

Intergovernmental revenue from the Commonwealth and Federal government collectively constitutes 42 percent of total revenue, the largest source of revenue, and increased \$12.9 million over the previous year.

General property taxes, the second largest source of revenue, represented 25 percent of total revenue. These taxes, which include real and personal property levies, increased \$1.3 million over the previous fiscal year.

Other local taxes are the third largest source of revenue. This category, which represents 20.6 percent of total revenue, includes taxes on such items as local sales and use, consumers' utility, business license, motor vehicle license, cigarette, hotel and motel room, and restaurant food, and increased by \$7.4 million over last year.

Recovered costs, consisting primarily of city employee hospitalization contributions, debt service recoveries, and administrative cost recoveries, represents 2.3 percent of total revenue and increased by \$1.8 million from last year.

The City's Stumpy Lake Reservoir, deemed by the City to be excess water capacity located within the boundaries of the City of Virginia Beach, was sold. This sale was the primary reason for the \$10.7 million increase in proceeds from sale of land.

Operating transfers-in do not include \$47.8 million of transfers received by the Debt Service Fund from the General Fund in the general governmental function.

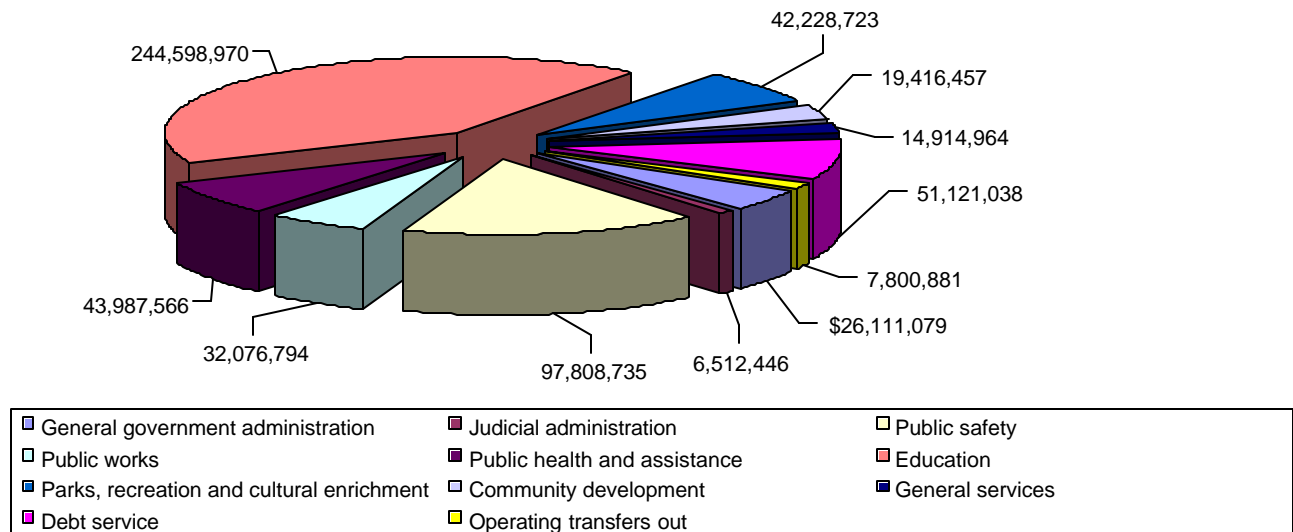
GENERAL GOVERNMENTAL EXPENDITURES AND OTHER FINANCING USES
(Accounting principles generally accepted in the United States of America)

General governmental expenditures and other financing uses include the City's General Fund, Debt Service Fund and School General Fund, which are the funds for which City Council adopts annual operating budgets. Expenditures and operating transfers out for general governmental purposes approximated \$587 million, representing an increase of \$19.7 million, or 3.5 percent over fiscal year 2000.

The expenditures for all general governmental functions, the relationship of each to the total, and the changes from the previous year, are as follows:

	2001 Amount	2000 Amount	Percent of 2001 Total	Increase (decrease) from 2000
General government administration	\$ 26,111,079	\$ 23,825,965	4.5 %	\$ 2,285,114
Judicial administration	6,512,446	7,973,128	1.1	(1,460,682)
Public safety	97,808,735	91,929,625	16.7	5,879,110
Public works	32,076,794	30,611,202	5.5	1,465,592
Public health and assistance	43,987,566	44,310,724	7.5	(323,158)
Education	244,598,970	235,275,491	41.7	9,323,479
Parks, recreation and cultural enrichment	42,228,723	40,505,916	7.2	1,722,807
Community development	19,416,457	20,348,088	3.3	(931,631)
General services	14,914,964	15,260,708	2.5	(345,744)
Debt service	51,121,038	48,398,339	8.7	2,722,699
	<u>578,776,772</u>	<u>558,439,186</u>	<u>90.0</u>	<u>20,337,586</u>
Other financing uses:				
Operating transfers out	7,800,881	8,432,676	0.01	(631,795)
	<u>\$ 586,577,653</u>	<u>\$ 566,871,862</u>	<u>100.0 %</u>	<u>\$ 19,705,791</u>

FY-2001 General Governmental Expenditures and Other Uses



Education expenditures, representing 41.7 percent of total 2001 expenditures, increased by \$9.3 million from 2000, due to additional local and state funding, resulting in additional spending on local education initiatives.

The \$1.7 million increase in parks, recreation and cultural enrichment expenditures is due primarily to increases provided for expansion and promotion of library and cultural attractions as well as additional funding for facilities maintenance.

Public safety expenditures, representing 16.7 percent of total expenditures, increased by \$5.9 million, due to continued vigilance for the safety and well being of City residents, including expansions of the public safety budgets.

Public works expenditures increased by \$1.5 million, reflecting the continued expansion of neighborhood services.

General government administration expenditures fiscal year 2001 increased by \$2.3 million.

Debt service expenditures increased by \$2.7 million due to an increase in general obligation bonds issued in fiscal year 2000.

Operating transfers out do not include \$47.8 million of transfers to the Debt Service fund made from the General Fund in the general governmental function.

The change in total general government expenditures of \$14,712,465 represents only a 2.6 percent increase over fiscal year 2000. Despite expanded budgets, the City remains focused on continuing efforts to improve efficiency, utilizing process improvements and automation.

A summary of General Fund activity on a (Non-GAAP) budgetary basis is as follows:

	Original Budget	Final Budget	Actual	Variance (Unfavorable) Favorable
Total revenue and other financing sources	\$ 595,695,000	\$ 597,963,969	\$ 603,908,746	\$ 5,944,777
Total expenditures and other financing uses	595,695,000	597,963,969	583,698,593	14,265,376
Revenue and other financing sources greater (less) than expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,210,153</u>	<u>\$ 20,210,153</u>

ENTERPRISE FUNDS

The Water Utility Fund was established in fiscal year 1980 to account for the operations of the City-owned water system.

The Wastewater Utility Fund (formerly the Sewer Utility Fund) was established in fiscal year 1984 to account for the operations of the City-owned wastewater (sewer) system.

The Parking Facilities Fund was established in fiscal year 1990 to account for the operations of City-owned parking facilities.

Financial information on these funds is as follows:

Water Utility Fund

Comparative data for the past two fiscal years are presented as follows:

	2001 Amount	2000 Amount
Operating revenue	<u>\$ 62,057,979</u>	<u>\$ 61,879,482</u>
Operating income	<u>24,169,932</u>	<u>24,211,214</u>
Income available for revenue bond debt service:		
Operating income and interest revenue not capitalized	26,571,253	26,788,054
Add: depreciation and amortization	9,155,844	9,470,024
	<u>35,727,097</u>	<u>36,258,078</u>
Revenue bonds - annual debt service requirement	<u>\$ 18,091,636</u>	<u>\$ 18,091,718</u>
Coverage (income available for debt service divided by annual debt service) - revenue bonds	<u>1.97</u>	<u>2.00</u>

During the year, \$4,680,000 of matured revenue bonds and \$7,242,529 of matured general obligation bonds, serviced with the earnings of the Water Utility Fund, were retired. On September 28, 2001, the City also issued \$26 million of water revenue bond anticipation notes.

The rate setting and debt covenants for these revenue bonds require a debt service coverage ratio of 1.10. The debt coverage ratio for fiscal year 2001 reflects compliance with this requirement and demonstrates the realization of the City's commitment for a fiscally sound water system.

Wastewater Utility Fund

Comparative data for the past two fiscal years are presented as follows:

	2001 Amount	2000 Amount
Operating revenue	\$ 12,088,264	\$ 12,677,081
Operating income	3,890,736	5,567,387

During the year, \$3,538,872 of matured general obligation bonds, serviced with the earnings of the Wastewater Utility Fund, were retired. Wastewater revenue bonds have not been issued by the City.

Parking Facilities Fund

Comparative data for the past two fiscal years are presented as follows:

	2001 Amount	2000 Amount
Operating revenue	\$ 16,444,810	\$ 15,449,410
Operating income	7,598,552	7,161,821
Income available for revenue bond debt service:		
Operating income and interest revenue not capitalized	8,400,033	7,533,386
Add: depreciation and amortization	3,139,800	2,791,924
Revenue bonds - annual debt service requirement	11,539,833	10,325,310
	\$ 5,683,455	\$ 4,621,053
Coverage (income available for debt service divided by annual debt service) - revenue bonds	2.03	2.23

During the year, \$1,320,000 of matured revenue bonds and \$2,697,739 of matured general obligation bonds, serviced with earnings of the Parking Facilities Fund, were retired.

The rate setting and debt covenants for these revenue bonds require a debt service coverage ratio of 1.25. The debt coverage ratio for fiscal year 2001 reflects compliance with this requirement and demonstrates the realization of City's policy commitment for a fiscally sound parking facilities system.

DEBT ADMINISTRATION

The ratio of general obligation debt to total assessed value of taxable property and the amount of bonded debt per capita are useful indicators of the City's debt position.

Outstanding general obligation bonds, net of bond discount, at June 30, 2001, totaled \$466,527,532, of which \$112,610,382 was related to enterprise fund projects to be paid from the revenue of the respective enterprise funds and are reported as liabilities in these funds. The balance of \$353,917,150 was for general capital improvement projects, which is considered to be net direct tax-supported debt.

Net bonded debt per capita at June 30, 2001 was \$1,510.

During fiscal year 2001, \$45,563,463 of matured serial bonds were retired. Of this amount, \$32,084,323 was related to general capital improvement projects and \$13,479,140 was related to enterprise fund projects. Additionally, bonds and bond anticipation notes issued during fiscal year 2001 totaled \$48,657,170, of which \$25,657,170 was for general capital improvement projects and \$23,000,000 was for water utility projects.

Although not a measure of affordability, it is worthy to note that while the City's legal debt limit is \$845,828,094, the amount of gross debt applicable to the debt limit at June 30, was \$445,590,000 (Table VII) or 55.77 percent. The legal debt margin, or the margin for creation of additional debt, is \$374,082,848. The legal debt margin represents the amount of additional indebtedness which could be incurred without exceeding the debt limit established by law and is in addition to any bonds that may be approved by popular vote, to which the legal limit does not apply. The legal debt limit is based on 10 percent of the assessed value of taxable real property in accordance with Section 10 of Article 7, Constitution of the Commonwealth of Virginia.

The outstanding bonded debt is detailed in Note IX, General Long-Term Obligations, of the notes to financial statements. Tables VII, VIII, and IX in the Statistical Section of this report present more detailed information about the debt position of the City.

The City's public debt is maintained at realistic levels in relation to its community needs and financial capacity to service debt and continues to have high credit ratings. The water and parking revenue bonds include purchased credit enhancements. The City's bond ratings are as follows:

	<u>Moody's Investors Service</u>	<u>Standard & Poor's</u>	<u>Fitch</u>
General obligation bonds	A1	AA	N/A
Water revenue bonds	A1	AA-	AA

Parking revenue bonds:

Series 1997, 1999, and 2000B	Aaa	AAA	N/A
Series 2000A	Aal/VMIG1	N/A	AA/F1+

The City's minimum lease payments for obligations under capital leases totaling \$14,667,282 for office space improvements financed by a long-term lease (20 years), and reprographics, computer software and hardware, automotive maintenance, solid waste automation and other heavy equipment financed through lease-purchase agreements for up to five years. These transactions are discussed in Note IX, Capital Leases, of the notes to the financial statements. The City employs a policy for identifying and determining the specific circumstances whereby lease-purchase financing would be utilized for equipment acquisition.

CASH MANAGEMENT - GENERAL GOVERNMENT

Interest bearing bank deposits and investments of daily cash balances at June 30, 2001, totaled \$258,259,697. The average yield on maturing investments during the year was 5.9 percent and interest earned, net of amounts capitalized for capital projects was \$7,816,879.

The effectiveness of the City's cash management program for corporate funds is evidenced by the fact that 100 percent of available cash resources was productively invested during the year. Cash temporarily idle during the year was invested primarily in certificates of deposit and prime-quality commercial paper.

CASH MANAGEMENT - EMPLOYEES' RETIREMENT SYSTEM

Cash management of the Employees' Retirement System is handled as a two-step process by the System's trustees. The Executive Secretary initially invests available funds by using the bank's sweep process of investing idle funds in repurchase agreements on a day-by-day basis. When a sufficient amount is accumulated, it is made available to the System's professional money managers as directed by the trustees.

Funds made available to the money managers are invested under policy guidelines established by the trustees. Interest and dividends earned during the fiscal year totaled \$27,869,606.

SPECIAL REVENUE FUNDS

During fiscal year 2001 total revenue and other financing sources for the special revenue funds totaled approximately \$46.6 million. Expenditures and other financing uses also totaled approximately \$45.5 million.

Summarized financial data and information about the individual special revenue funds follows:

	Revenue and Other Financing Sources	Expenditures and Other Financing Uses
Storm Water Fund	\$ 7,239,773	\$ 6,099,571
Grants Fund	31,511,655	31,511,655
Community Development Fund	7,896,595	7,896,595
	<u>46,648,023</u>	<u>45,507,821</u>

The above funds account for certain revenues received from federal and Commonwealth agencies plus City monies in the form of direct appropriations or matching funds, as well as certain other specialized sources of funding, such as environmental storm water management fees. The funds are used for special and designated programs and projects.

The Storm Water Fund was established in 1992 to account for the maintenance of an environmental storm water management system.

SCHOOL BOARD

Because the School General Fund is included in general governmental functions (presented as part of the School Board component unit), and to respond to public interest in School Board activities, certain details relating to revenue and expenditures of the fund are presented as follows:

	2001 Amount	2000 Amount	Increase/ decrease
Revenue:			
From the Commonwealth	\$ 156,304,730	\$ 147,668,555	\$ 8,636,175
From the federal government	4,651,726	5,582,317	(930,591)
Other	3,137,487	2,889,654	247,833
	<u>164,093,943</u>	<u>156,140,526</u>	<u>7,953,417</u>
Transfer from primary government	80,882,544	79,032,544	1,850,000
	<u>\$ 244,976,487</u>	<u>\$ 235,173,070</u>	<u>\$ 9,803,417</u>
Expenditures for education	<u>\$ 244,396,180</u>	<u>\$ 235,275,491</u>	<u>\$ 9,120,689</u>

Transfers from the primary government represents the local portion of the Norfolk Public Schools' budget.

CAPITAL PROJECTS FUND

Proceeds of general obligation bond issues and other resources used for acquisition of capital facilities are accounted for in the Capital Projects Fund until improvement projects are completed. Completed projects and construction in progress at year-end are capitalized in the General Fixed Assets Account Group. During 2001, projects totaling \$4,700,642 were completed.

During fiscal year 2001, appropriations authorized for general capital improvement projects were \$35,187,000. Expenditures for these projects and those authorized in prior years were \$27,488,183.

INTERNAL SERVICE FUNDS

Internal service funds account for goods or services provided by certain designated agencies of the City to other agencies within the City on a cost-reimbursement basis. Net income for the internal service funds was \$215,211 in fiscal year 2001 compared to net loss of \$408,578 in fiscal year 2000.

FIDUCIARY FUNDS

Fiduciary funds are used to account for assets held by the City as a trustee, as a custodian or in a fiduciary capacity, and include the following:

- Expendable Trust Fund
- Nonexpendable Trust Fund
- Pension Trust Fund (Employees' Retirement System)
- Agency Fund - Payroll Withholdings
- Agency Fund - Other
- Agency Fund - Commonwealth of Virginia

The agency fund for the School Board is presented as part of the School Board component unit.

Because of the nature of these funds, any amounts reported in the fund balance sections of the balance sheets do not represent monies appropriable by City Council. A description of these funds is presented in Note I, Summary of Significant Accounting Policies, of the notes to the financial statements.

GENERAL FIXED ASSETS

The general fixed assets of the City are those used in the performance of general governmental functions and exclude the fixed assets of enterprise and internal service funds. On June 30, 2001, the general fixed assets of the City amounted to \$605,308,764. Infrastructure is not subject to capitalization and depreciation of general fixed assets is not recognized in the City's accounting system. The City's capitalization policy was revised during fiscal year 2001 to require capitalization of all fixed assets, other than infrastructure, with a cost of \$2,000 or greater. The change in policy resulted in \$3,550,134 of deleted general government equipment assets in the General Fixed Asset Account Group. There was no effect on operations.

RISK MANAGEMENT PROGRAM

A partially self-insured risk management program was established pursuant to an ordinance adopted by City Council on July 11, 1978. The program includes an identified retention which reflects the liability the City is willing to assume based on past loss experience. The program includes general liability; vehicle liability for employees and appointed officials; workers' compensation; and unemployment compensation. Protection is also provided by surety bonds, purchased property insurance, professional liability insurance for paramedics, casualty coverage for certain special risks, and the purchase of excess general liability coverage.

The City appropriates funds annually for the payment of claims liabilities, property losses, and any related expenses covered by its purchased insurance policies and self-insurance plans. In addition, \$2,650,000 of general fund equity has been designated to provide for any unforeseen future claims liabilities and related expenses that may not be fully covered by purchased insurance or annual budget appropriations. At year-end, an actuarial projection was performed to determine the amount of all outstanding claims liabilities, property losses, and any related expenses arising from incidents occurring on or before June 30, 2001, which resulted in the City recording an estimated total liability of \$14,958,635 as of June 30, 2001.

OTHER INFORMATION

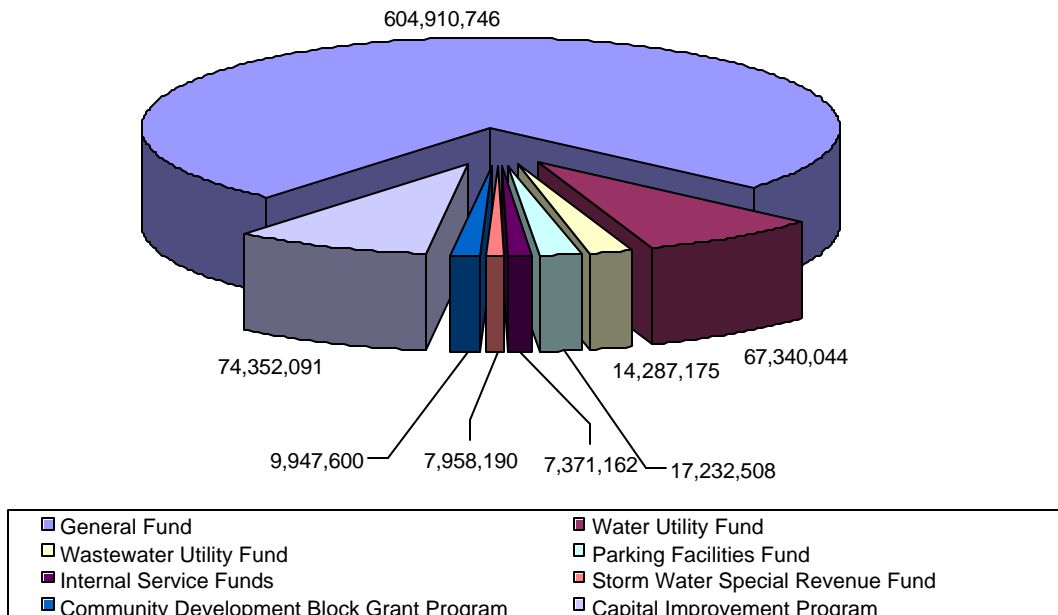
Assessed value of all property for fiscal year 2001 totaled \$9.728 billion compared with \$9.325 billion for fiscal year 2000. This represents an increase of \$.4 billion, or 4 percent from the preceding year.

Current tax collections for real and personal property were 92.47 percent of the tax levy, as compared with 92.1 percent for last year. The percent of total collections (current and delinquent) to the current tax levy was 100.69 percent, as compared with 101.5 percent for last year.

The City Council adopted the following fiscal year 2002 balanced budgets:

General Fund	\$ 604,910,746
Water Utility Fund	67,340,044
Wastewater Utility Fund	14,287,175
Parking Facilities Fund	17,232,508
Internal Service Funds	7,371,162
Storm Water Special Revenue Fund	7,958,190
Community Development Block Grant Program	9,947,600
Capital Improvement Program	74,352,091

Fiscal Year 2002 Balanced Budget



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Norfolk,
Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2000

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Anne Spray Kinney
President

Jeffrey L. Esser
Executive Director

INDEPENDENT AUDIT

Section 99 of the City Charter requires that ". . . as soon as practicable after the close of each fiscal year an annual audit shall be made of all the accounts of the city offices . . . by certified public accountants selected by the council . . ." This requirement has been complied with and the opinion of Cherry, Bekaert and Holland, LLP, Certified Public Accountants, is included in this report.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Norfolk, Virginia, for its comprehensive annual financial report for the fiscal year ended June 30, 2000. This was the fifteenth consecutive year that the City of Norfolk has received this prestigious award. In order to be awarded a Certificate of Achievement, the City must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of only one year. We believe our current comprehensive annual financial report continues to conform to the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

ACKNOWLEDGEMENTS

The preparation of this report is attributable to the staff of the Department of Finance, especially the City Controller Bureau staff, and the enterprise controllers and fund accountants of various City activities. Appreciation is expressed to all personnel who assisted in and contributed to its preparation. The City Controller and Accounting Manager are recognized for coordination of the above efforts. Appreciation is also extended to the accounting firm of Cherry, Bekaert, and Holland, LLP, independent auditors, for the suggestions and recommendations they made during the preparation of this report.

Administration and monitoring of the City's finances are not highly visible governmental functions in the routine view of the public. Nevertheless, they are, as with a number of other functions, the means and the capability by which the City carries out public service responsibilities inherent to the purposes of municipal government. This report documents and presents the summary record of the past fiscal year in this essential public activity and charge.

Most significantly, there is acknowledgment of the positive attention of the City Council toward assurance that planning for the conduct of financial operations of the City is performed in a responsible and progressive manner. Such a constant policy position is necessary for sound municipal government.

Respectfully submitted,

Regina V.K. Williams
City Manager

Steven G. de Mik
Director of Finance